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WAR—OR SCIENTIFIC TAXATION

BY C. H. INGERSOLL,

New York City.

Two important factors which mark the growth of civilization are an increasing control over the forces of nature, and a more minute division of labor. The latter makes us to a large extent dependent on others, and this has never been more conclusively shown than during the present war. Although we are a neutral nation, the struggle has affected every one of us in an economic sense. Some have lost—others gained, so far.

At any rate, the war's costs are enormous and will continue to be. Professor Charles Richet, of the University of Paris, estimated some years ago that a general European war would cost approximately \$50,000,000 a day. Recent figures from London indicate that the annual expense of England and her allies will approximate \$8,000,000,000 and the total annual direct expenditures of the nations at war will probably reach \$16,000,000,000.

Statistics of capital known to be normally available for investment and securities are compiled year by year by the Belgian Financial Publication *Le Moniteur des Intérêts Matériels* and these show the average annual amount available, for the past few years, to be about \$4,000,000,000. *One year's war will consume approximately four years' savings!* A costly plaything—War.

And I have not yet spoken of the indirect costs. The enormous destruction of property, the almost complete disorganization of the agencies of production and distribution, the economic loss sustained by the almost unbelievably large loss of life—these are factors which cannot even be approximated.

Who will pay for this war? Will the people of the nations at war stand all the costs, or will they be distributed among humanity in general? I believe that we will all have to bear a share of the burden, and that it will fall most heavily on those who are least fitted to stand up under it—the consumers. The consumer is the laborer in more than nine cases out of ten. Under the present system of taxation, business will stand the first costs. But a tax upon

business is a tax upon capital and industrial enterprise, on which the consumer-laborer depends for employment. If business thrives, the consumer-laborer pays the tax in the form of higher prices; if the tax is so high that business cannot be conducted at a profit, he pays it in the form of unemployment. In other words, he gets it coming or going. Perhaps it will be in the form of higher prices—perhaps increased unemployment—or in some other manner, but these costs will be paid. For many months we have been paying the costs in the form of disorganized and dislocated business, and by special taxes on proprietary and toilet articles, telephone and telegraph messages, and so on.

The government must be supported—that is not open to discussion. Under the present system governmental revenues are quite largely secured from import duties. When this source is cut off, or lessened, as it has been since the war started, we pay the penalty in another way—and always through taxes levied upon those who have least cause to have to bear them. Taxation as now in vogue is all bad; taxes fully deserve the evil reputation they bear. Taxation today means taking from people something they think they own; hence their persistent objections. This is evidence of the wrong basis for taxation, and proof that it is interfering with normal life, industry and prosperity. If we want to do away with war, let us first remove the cause—unjust taxation. Can business prosper while being driven from pillar to post by the tax assessor? Or is it better not to have business prosper? A stranger might reasonably infer that the prosperity of business is decidedly against public policy.

What is the present financial status of American industries? We are blessed with good crops, for one thing. In addition to having plenty for home consumption, we have enough to feed several of the warring nations and some of the neutrals. The farmer instead of worrying about how he will pay the interest on his mortgage, now spends his earnings assiduously studying the pages of the automobile catalogue. He is selling the products of the field at top prices, and so far at least, the increased prices of the things he has to buy do not equal his increased revenues.

It is the opinion of 2,000 leaders of thought and action in the financial, mercantile and industrial field that "while money is cheap, credit is subnormal." There is a super-abundance of money in some

sections of the country, mainly in the larger centers. This is to be expected, for the sequence of a period of business depression is always an accumulation of money at the large centers and a closer scrutiny of credit that results in the elimination of those who were hopelessly crippled by the panic but were temporarily carried along by bankers until better financial conditions permitted of their rehabilitation through bankruptcy or reorganization, with less shock to the community and with greater salvage to their creditors. Economy is general, and reports indicate that in many instances it is deliberate and is being followed as a matter of choice and not of necessity. The Federal Reserve Law is making money easier to secure. We have a brisk home trade and a strong export trade in foodstuffs and war materials. Our "balance of trade" has reached a record figure. Our citizens are "Seeing America First." Millions of dollars are being kept at home this year through force of necessity.

This war was not desired by any nation now involved in it, nor by the people, nobility or ruling class of any country, and was beyond the power of the world's financiers to have averted. It is a *commercial war*, always raging, due to the fact that each nation is always unconsciously fighting to extend its area of *free trade*. The existence of tariff walls is the prime cause of national and racial hatreds. On the other hand, the examples of the German Zollverein and the United States of America show the mutual advantage and amity that flow from state autonomy and the freedom of commerce.

"Suppose" with me for a moment. Suppose that there were tariff walls between the various states of the Union. Now then—Michigan automobile manufacturers are trying hard to build up an export trade in South America. The cheapest method of transportation is, we will assume, by Mississippi River boats, to New Orleans. But to reach the Mississippi or Ohio, the Michigan manufacturers would have to pass through Illinois, Indiana or Ohio, and there pay a duty on their products. Think of the jealousy and hatred this would cause! We are so accustomed to free trade within the United States that our senses have failed to grasp the importance of the cause which has thrown Europe into a state of indescribable turmoil.

The real cause of the European war was not the shooting of an Austrian noble by a Serb—the real cause was an economic one—the unconscious fight of each nation to extend its area of free trade. Russia, for example, is a nation without a good seaport. What is

more natural then, than for her to look with envy at German soil along the Baltic, and at the region of the Dardanelles? What would prevent her from shipping her goods from German ports? The answer is the existence of tariff walls. If she sent her goods through Germany, she would be taxed. This is a condition which has existed for centuries, has caused numberless wars, and will continue to create discord and ill-feeling until governments remove tariff barriers and gain their support from nature's creation instead of from the fruits of man's labor.

The remedy—the only insurance against war—is a more scientific, rather *a* scientific, system of levying taxes. Under the present system unimproved land goes almost free on the theory that it is earning no income, and in disregard of the fact that it is a stumbling block, a drag on development, and that it is growing valuable by the industrious efforts of others. Build a house, or even paint one, or beautify your property, and you must pay a penalty. Buy a suit of clothes, a barrel of sugar or a ton of coal, and you will have paid another fine that must discourage your effort to live comfortably. Our present system is a direct encouragement to speculative inaction, and at every turn a blow at honest industry.

The site tax, or tax on land values would not disturb existing titles to land at all, but by surrounding *users* of land with fair conditions, not now existing, would make these titles absolutely secure. The force of the change would fall on those non-users or partial users of tracts they are holding for an advance in price. For example, of two adjoining pieces of land, one is occupied by a building and other improvements, and the other is in its raw natural state. The owner of the first pays a high tax on every building and its contents,—on even his fences, ditches, grading and so on, as well as a high tax on the land itself, while his neighbor pays a *low* tax on the land alone. A tax on site values would remove all tax from the improvements and take the full rental values of the land only, without considering in the slightest degree the improvements, thus lowering the tax paid by owner No. 1. The tax on the unimproved plot would be increased three or four times, bringing it to the actual economic value, corresponding to the adjoining land. And what would be the net result of this? First, an industrious man's taxes would be lowered, and he would be encouraged to make further improvements. Second, the "dog in the manger" would realize

that there was no longer any profit in holding land idle; so he would use it, build upon it, cultivate it, and employ labor, thus raising wages. Third, another house would be in the market, lowering rents for houses, and more produce would be sent to market, contributing to cheaper prices for such. Fourth, as the revenues from land would more than suffice for all expense of government, every other tax would be abated, so that general public would actually be exempt from taxation! The land would take care of it all, and justly so, because these same people have made every dollar of these values. "Every other tax would be abated." This would mean the end of war and its terrors. There would be little incentive to reach out for more land if every country levied taxes on site values alone.

Great Britain made a step in the right direction by removing tariff barriers and establishing free trade. But England did not dig down to the roots of the question—and as a result England has perhaps the worst tax system of any nation. A few nobles—law-lords as well as land-lords—hold the greatest share of the land, and are encouraged to hold it, idle and useless, by a tax system which lets unimproved land off nearly free and puts a high tax on improvements.

The whole object of any system of taxation is that it shall be certain, just, easily collected and shall not be a burden to industry, thrift and initiative. Our present system, in order to be certain, is unjust, for it is not placed on those who should and are best able to bear it. Under the present tax laws, those whom we have a habit of thinking pay the tax are in reality tax collectors from those who rent, use and purchase. Such factors as labor, sea and rail transportation, supply of capital and interest rates do, of course, contribute to the prosperity of American industries—and I speak of industries in the broad sense. But back of these factors, and more fundamental, is another factor—taxation. Until we have just and scientific taxation—wars or no wars—the prosperity of American industries will be uncertain. Until tariff walls are broken down and taxes levied from site values only, we must always be prepared for the outbreak of war.